



THE CITY OF SAN DIEGO
MANAGER'S REPORT

DATE ISSUED: November 15, 2000 REPORT NO. 00-253

ATTENTION: Honorable Mayor and City Council
Docket of November 21, 2000

SUBJECT: Proposed Disposition and Development Agreement with Mercado
Alliance LLC. - Barrio Logan Redevelopment Project

REFERENCE: Report Nos. RA-92.05, RA-92.11, RA-93.01, RA-98-05, RA-98-10

SUMMARY:

Issues - 1) Should the City Council consent to the Redevelopment Agency entering into a Disposition and Development Agreement with Mercado Alliance LLC, for the development of the Mercado at Crosby Street Commercial project in the Barrio Logan Redevelopment Project Area? 2) Should the City Council state for the record that the Final Environmental Impact Report prepared for the Barrio Logan Redevelopment Plan (DEP 90-0133) and the Secondary Study (prepared by Butler Roach for the Mercado Project dated November, 1992) has been reviewed and considered prior to approving the project? 3) Should the City Council authorize the City Manager or designee to execute Amendment No. 2 to the Urban Development Action Grant from the U.S. Department of Housing and Urban Development for \$875,000 to extend the term of the grant to support the Mercado at Crosby Street Redevelopment Project?

Manager's Recommendations - 1) Consent to the Redevelopment Agency entering into a Disposition and Development Agreement with Mercado Alliance LLC, for the development of the Mercado at Crosby Street Commercial project in the Barrio Logan Redevelopment Project Area. 2) State for the record that the Final Environmental Impact Report prepared for the Barrio Logan Redevelopment Plan (DEP 90-0133) and the

Secondary Study prepared by Butler Roach for the Mercado Project dated November, 1992) has been reviewed and considered prior to approving the project. 3) Authorize the City Manager or designee to execute Amendment No. 2 to the Urban Development Action Grant from the U.S. Department of Housing and Urban Development for \$875,000 to extend the term of the grant to support the Mercado at Crosby Street Redevelopment Project.

Other Recommendations - The Barrio Logan Project Area Committee will review this DDA in November and their recommendation will be transmitted verbally.

Fiscal Impact - In May of 1994, the Redevelopment Agency and the City Council approved the financing package for this project. The financing package included a Section 108 Loan for \$7.2 million, an EDI Grant for \$720,000 and a UDAG grant for \$875,000 for a total of \$8,795,000 million which covered the acquisition, relocation, remediation and some pre-development costs. The UDAG grant funds have not yet been released to the City because the program monies are not allocated until actual construction begins. At that point, HUD releases the grant at a rate of 10 to 1 from the value of the construction expenditures or private dollars spent on the project. An outstanding loan of \$385,000 from the City's TOT fund will be repaid upon payment of the grant. Currently the site is vacant and under public ownership, thus it is not generating any tax increment to the Agency. The project has an estimated proposed value of \$14.6 million. Once built, it is estimated that the project will generate \$1,909,665 in tax increment to the Agency over 20 years, and \$5,268,581 in sales tax to the City from the project and spin-off sales.

BACKGROUND

In May of 1994, the Agency and the City Council approved a Disposition and Development Agreement with San Diego Mercado Associates to develop the Mercado Project. As a result of that DDA, the Agency acquired the two blocks of real estate identified for the project. The land acquisition was financed through the use of a HUD section 108 loan for \$7.2 million, a HUD Economic Initiative Grant for \$720,000 and a HUD Urban Development Action Grant for \$875,000. The total acquisition cost amounted to \$8,305,000 million leaving a remainder of \$490,000 to complete site remediation and clearance. After various extensions to the DDA, the developer was not able to secure financing or an anchor tenant for the project. The Agency terminated the DDA and then initiated a public process to solicit a new developer.

As a result of the developer solicitation process, the Redevelopment Agency and the Mercado Alliance LLC entered into an exclusive negotiation agreement in June of 1998. The negotiation process proceeded through November of 1999 requiring one extension to the ENA in December 1998. On November 8, 1999, a DDA was executed by the Developer. Since November of 1999, the Agency staff has worked with the developer to identify secure financing and complete environmental investigations before proceeding to the Agency Board for a hearing on the DDA.

It has become apparent that a DDA is required in order to secure the financing of this project because the developer's current financing structure relies on the allocation of tax-exempt, Enterprise Zone Bonds.

DISCUSSION

The development entity is the Mercado Alliance LLC, a California Limited Liability Company. The two entities that make up the Alliance are Crosby Street, LLC, a California Limited Liability Company owned by LandGrant Development Corporation, and San Diego Mercado Associates, a California General Partnership. Richard Juarez and the Metropolitan Area Advisory Committee on Anti-Poverty in San Diego, Inc., a California non-profit public corporation, are general partners in San Diego Mercado Associates. Each entity of the Mercado Alliance owns a 50 percent interest in the Alliance. Attachment No. 1 displays these development relationships.

As outlined in the proposed DDA (Attachment No. 2), the proposed project will encompass 6.5 acres north of the Coronado Bay Bridge between Crosby Street, Main Street and National Avenue. The project is comprised of 3 major anchor tenants, five retail multi-tenant buildings and two pads. More specifically, the project includes an anchor grocery store of approximately 33,000 square feet, a second anchor commercial unit of approximately 15,000 square feet for a mid-size retail establishment; five additional single story multi-tenant buildings and one two story retail building ranging in size from 3,500 square feet to 13,500 square feet and two fast food/convenience development pads, each containing approximately 3,000 square feet along Crosby Street.

The project will cost \$13.6 to build, split between the anchor tenant at \$4.6 million and the ancillary tenants at \$9.0. Of the total budget allocated for site acquisition, demolition and remediation, \$490,000 remains from the Agency's contribution. Since UDAG will only release funds after construction begins, the developer has agreed to complete the site remediation up front and receive reimbursement from the grant's remaining \$490,000 as it is allocated.

The property is scheduled to be conveyed no later than November of 2001. However, the project is anticipated to be under construction within the next seven months and completed within two years with the first 60% of the project complete in 18 months. Attachment 3 of the DDA lays out the entire schedule of performance.

The concept plans and elevations of the project are shown in Attachment No. 1A of the DDA (Attachment 2 of this report). They articulate the layout of the commercial center, a visual picture of the buildings as well as the main entrances to the project.

The site plan as designed meets the pedestrian-oriented design criteria of the Barrio Logan Planned District Ordinance. The project provides more than the required number of parking spaces at the request of the community (5.36 cars per 1,000 square feet). Angled parking is proposed on Main Street and National Avenue. The project does, however, provide a pedestrian-

oriented design with entrances from the street, enhanced landscaping and architectural details along all streets. A community stage will front Chicano Park under the bridge. If approved, Newton Avenue will be vacated creating pedestrian access along Crosby Street and along the Chicano Park.

Related Issues

Outstanding items previously identified for this project include a 10,000 square foot pad for a community college facility and a permanent home for the Aztec Brewery Murals. On August 1, 2000 the Agency approved an Exclusive Negotiation Agreement with the San Diego Community College District and a private developer to expand the existing Cesar Chavez Continuing Education Center just east of the Mercado Site on National Avenue. That project as proposed will include remnant City and Caltrans parcels as well as a privately owned parcel which will realize the 10,000 square foot requirement of the Agency to the Community College. The project will also provide 1,000 square feet to the community as a display area for the murals and community meeting space.

A site located just west of the project on the corner of Main Street and Crosby Street, commonly referred to as the "Trolley Site" was included as a temporary parking area for the Mercado Project in the ENA extension approved in December of 1998. That site has since been removed from the Mercado Site and is the subject of an ENA for development approved by the Agency on September 12, 2000.

The proposed Mercado project includes the remainder of two city-owned parcels that were acquired as part of the Crosby Street Widening Project. These two parcels (538-510-28 and 538-671-01) as shown on Attachment No. 3 were to be utilized by the Agency for Redevelopment purposes pursuant to a Cooperation Agreement approved by the Agency and Mayor and Council on Aug 13, 1992 by Resolution R-2132 (Attachment No. 3A). The Agency will then transfer these to the developer with the rest of the site.

Additional Mitigation Measures were added to the DDA (Attachment 10 of the DDA) to ensure that all Environmental Impacts Associated with the Project would be mitigated. The are summarized below:

- An approved Archeologist must monitor all construction activities and stop construction if any historical resources are uncovered by the project
- All previously recovered artifacts must be analyzed and cataloged.
- An approved Paleontologist must monitor all construction activities and stop construction if any paleontological resources are uncovered by the project
- Best Management Practices must be incorporated into project design
- Construct Vapor Barriers beneath project structures to reduce the excessive

- carcinogenic risk (ECR) to an acceptable level for the proposed site use.
- 55-gallon drums containing soil cuttings may be disposed of on-site
- All regulated and non-regulated waste generated by construction equipment or activities shall be evaluated, handled, stored, transported and disposed in accordance with all laws
- Modify traffic signal at Newton/Crosby to enter the project driveways
- Re-stripe Crosby Street between Kearney Ave. and Main St. to provide for two traffic lanes in each direction with a center turn lane and no on-street parking.
- Contribute a “fair share” of 14.6% of estimated cost towards future signalization at Logan Ave. and Beardsley St.

Housing Replacement Plan

The Redevelopment Agency is required to replace on a one for one basis every low/moderate income dwelling unit destroyed or removed as part of a redevelopment project within four years of its destruction or removal. Acquisition of the property for this development site removed three dwelling units of which one was a four bedroom unit and two were two bedroom units. All of those units were occupied by persons at very low income levels. Those units were replaced when the Agency built the Mercado Apartment project which created 144 units located adjacent to this project. The three units used to replace those destroyed by the acquisition for the Mercado Commercial project all have three and four bedrooms and are affordable to persons at very low income levels. The Agency can not execute the DDA until 30 days after the Replacement Plan is approved. The Replacement Housing Plan is attached as Attachment No. 5.

Re Use Appraisal and 33433 Report

As required by Redevelopment Law, a Reuse Appraisal (Attachment No. 6) and a Section 33433 Report (Attachment No. 7) were completed for the project and the conveyance of the property. The DDA proposes a \$100 land sale price for the site which is supported by the reports. The Agency subsidy in the form of the reduced land sale price is justified in order to support a higher level of development in an economically depressed area.

Amendment Number 2 to the HUD Urban Development Action Grant

In order to request allocation of the \$875,000 UDAG grant from HUD to the City of San Diego, the City is required to approve the second amendment to the grant. A draft of the amendment is included in the DDA as Attachment No. 9 (Attachment No. 2 of this report).

Conclusion

This project will complete the proposed Mercado concept by providing the commercial component to the Mercado Apartments located just south of the project. This project is critical in meeting the goal of the redevelopment plan to restore the residential character of the neighborhood. These neighborhood serving uses will remove blight and make Barrio Logan a

more livable community.

ALTERNATIVE

Do not consent to the Redevelopment Agency entering into a Disposition and Development Agreement with Mercado Alliance LLC, for the development of the Mercado at Crosby Street Commercial project in the Barrio Logan Redevelopment Project. This alternative will delay construction on the two block site.

Respectfully submitted,

Hank Cunningham
Director
Economic Dev. & Community Svs.

George Loveland
Assistant City Manager

HOOKS/IKJ

Attachments: 1. Mercado Alliance, LLC Developer Team Structure Chart
2. Disposition and Development Agreement
3. Parcel Map Showing City-Owned Property
3A. Cooperation Agreement - Crosby Street Widening Project
4. Housing Replacement Plan
5. Re Use Summary Report & 33433 Report

Note: The attachments are not available in electronic format. Copies of the attachments are available for review in the Office of the City Clerk.